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Key figures for asset management in 2018 - Control systems in portfolio asset management companies

In 2018, the number of employees working in compliance and internal control in the French asset management industry was practically stable compared with 2017. The number of person-days dedicated to this function rose slightly by 1.6%, from 124,920 to 126,978 between 2017 and 2018. Nevertheless, we observed another slight drop in the number of employees working in compliance and internal control (by 0.1 percentage point as between 2016 and 2017) among the total declared workforce. This paper reviews the organisation of control systems in asset management companies in 2018.

Levelling out of compliance and internal control staff

The gradual tightening of the regulatory framework since the 2008 financial crisis has led companies to expand their compliance and internal control teams. In the last few years, therefore, the number of person-days dedicated to the compliance and internal control function has risen by 5.4% annually on average between 2013 and 2018. Nonetheless, at the end of 2018, the number of person-days allocated to the compliance and internal control activity remained relatively stable compared with 2017 and there has been no significant increase since 2016.

The slowdown in the growth of the compliance and internal control workforce is primarily due to the drop in human resources provided to other group entities that has continued since 2016. After a long growth phase, the number of portfolio asset management companies providing control or assistance services to other entities of the same group seemed to have stabilised at around 13% at the end of 2018, practically the same percentage as in 2017.

Table 1: Average change in compliance and internal control workforce since 2013

However, this trend should be qualified considering the following: i) the number of compliance officers who were salaried employees of the portfolio asset management company rose by two percentage points to 78% at the end of 2018 compared with 76% in 2017, marking a decline in the outsourcing of control functions; ii) the average number of person-days assigned to the compliance and internal control function has continued to increase (up 12% since 2013).

An analysis by ownership structure of management companies highlights disparities in the resources made available to the compliance and internal control function. The entities that devote the highest number of person-days to the compliance and internal control function per billion euros of assets managed under collective investment schemes are the management companies that are subsidiaries of investment services providers (386 person-days on the average in 2018) and boutique firms (141 person-days in 2018). This ratio is explained by a minimum level of control in proportion to sometimes modest amounts of assets.

In contrast, management companies that are subsidiaries of credit institutions, insurance or mutual companies devote fewer person-days to compliance and internal control per billion euros of assets managed under collective investment schemes (36 and 46 person-days respectively in 2018). These players manage a larger volume of assets (67% and 17% of assets managed under collective investment schemes respectively in 2018) and have a very large proportion of institutional investors, which enables them to generate economies of scale. Nevertheless, these players allocate the largest proportion of their workforce to the compliance and internal control function (3.1% and 2.9% respectively in 2018).

However, regardless of the type of ownership structure, it can be observed that the proportion of the workforce assigned to compliance and internal control is relatively close to 3%.

**The "Other" category consists of management companies that are subsidiaries of investment services providers (excluding credit institutions) and public companies.*

The percentage of human resources dedicated to the risk control function continues to rise

It is recalled that portfolio asset management companies are required to establish and maintain a permanent risk management function⁽¹⁾ in order to formalise "all procedures enabling the investment manager to assess exposure to market, liquidity, counterparty and operational risks for each collective investment scheme or managed portfolio"⁽²⁾.

The number of person-days dedicated to risk control rose by 4% on 2017 and by more than 56% on 2012 to stand at 106,342 at the end of 2018. The share of the workforce assigned to this function remained stable in 2018 at 2.7%.

The share of portfolio asset management companies required to maintain an independent risk management function owing to the nature of the financial instruments used and the complexity of the strategies implemented, dropped from 23.6% in 2017 to 22.8% in 2018. After a decline in 2017, the number of investment management companies using the value at risk (VaR) method⁽³⁾ to measure risk exposure picked up in 2018 (67% in 2018 compared with 63% in 2017, see table 2). This stability should nevertheless be considered in the light of the strong growth in portfolio asset management companies in private equity and real estate, which often do not require the implementation of an independent risk management function. Conversely, for portfolio asset management companies dealing with more traditional asset classes, this shows a significant increase in the resources allocated to this function.

Table 2: Number of asset management companies by ownership structure required to implement an independent risk management function and using the VaR method

** Public companies comprise public financial institutions and public undertakings. An in-depth analysis of the risk control function in portfolio asset management companies highlights some disparities depending on the type of ownership structure.*

With 59,733 person-days allocated to risk control in 2018, credit institutions allocated the most resources to this function, followed by subsidiaries of insurance and mutual companies and then by boutique firms (21,378 and 20,524 person-days respectively).

Outsourcing of permanent and periodic control

All portfolio asset management companies approved by the AMF are required to implement a control system that must include the performance of first- and second-level controls, known as permanent controls, as well as third-level or periodic controls. When the asset management company or, more broadly, its parent group “does not reasonably have the financial resources to assign a person to the compliance function”⁽⁴⁾ and the position of compliance officer can only be assigned to a senior manager who holds managerial or sales functions, then the asset management company must outsource its compliance and internal control tasks.

**The “Other” category consists of management companies that are subsidiaries of investment services (excluding credit institutions) and public companies.*

Permanent control

On average, 57% of portfolio asset management companies outsourced their permanent control⁽⁵⁾ in 2018, which was practically the same percentage as in 2017 (55.7%), and up 12 percentage points on 2012. The “Other”⁽⁶⁾ category and boutique firms resorted the most to the outsourcing of permanent control (38% and 70% respectively).

Conversely, management companies that are subsidiaries of credit institutions and insurance and mutual companies outsourced a relatively small proportion of their permanent control (18% and 33% respectively), benefiting from substantial human resources or resources provided by their parent group.

** The “Other” category consists of management companies that are subsidiaries of investment services providers (excluding credit institutions) and public companies.*

*** Changes from one year to another may be significant given the small number of companies concerned. For example, the increase observed for the “insurance and mutual company” category in 2018 is due to the new outsourcing of permanent control for four entities compared with 2017 (out of a total of 33).*

Portfolio asset management companies are increasingly outsourcing permanent and periodic control. However, we note that there is a higher proportion of outsourcing of periodic control than permanent control.

Periodic control

**The “Other” category consists of management companies that are subsidiaries of investment services (excluding credit institutions) and public companies.*

Periodic control aims to “examine and evaluate the suitability and effectiveness of the asset management company’s internal control mechanisms and systems”⁽²⁾.

The percentage of management companies that outsourced periodic control stood at 70% compared with 56% in 2012. A closer look at the figures by shareholding category shows a general trend towards the outsourcing of periodic controls to external firms or internal control and inspection team of the parent group. The second category is logically more common with credit institutions and insurance companies, who outsource 84% and 64% respectively of their periodic control to in-house or group entities).

[1] Article 313-53-4 of the AMF General Regulation

[2] Article 2.1.1 and 2.1.2 of AMF Position-Recommendation de DOC-2014-06 – Guide to arranging risk management systems in asset management companies.

[3] Value at risk (VaR) is a composite indicator that estimates the maximum potential loss that a portfolio could incur for a given time frame and a given probability.

[4] Article 3.2.6.1. of AMF Position-Recommendation DOC-2012-19 – Programme of operations guide for asset management companies and self-managed collective investments

[5] Non-group outsourcing, entrusted to an external entity.

[6] The “Other” category consists of management companies that are subsidiaries of investment services (excluding credit institutions) and public companies

[7] Article 313-62 of the AMF General Regulation

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